FISCAL NOTE

Bill #:	SB0142	**Title:**	Authorize leasing and licencing of state lands for timber and forestry purposes
Primary Sponsor:	Tash, B	**Status:**	As Amended in Senate Committee

Sponsor signature Date — David Ewer, Budget Director Date

Fiscal Summary

	FY 2006 Difference	FY 2007 Difference
Expenditures:		
General Fund	$0	($19,536)
State Special Revenue	$0	$19,536
Revenue:		
State Special Revenue	$0	$38,060
Trust Funds	$0	$1,940
Net Impact on General Fund Balance:	$0	$19,536

- [ ] Significant Local Gov. Impact
- [ ] Included in the Executive Budget
- [ ] Dedicated Revenue Form Attached
- [ ] Technical Concerns
- [x] Significant Long-Term Impacts
- [ ] Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

1. Under current law, Department of Natural Resources and Conservation (DNRC) sells timber from state lands and the timber is harvested by the buyer. This bill would authorize DNRC to lease state lands for up to 10 years on single contract. This bill would be effective on passage and approval. The bill does not increase the amount of timber to be harvested, but will increase the net sales price of the timber sold.

Department of Natural Resources and Conservation

2. Timber purchasers would be able to manage trust lands in a way that maximizes their revenues over the duration of the lease or license, therefore, they may be willing to pay higher stumpage rates for timber sold under a lease scenario rather than sold under the restrictions of regular timber sale contracts. Due to initial startup of the program, it is assumed that only a single timber leasing or licensing contract would be entered into during FY 2007.
3. The single timber lease or license contract would be for 2,000 acres for an 8-year period. It is anticipated that no timber would be harvested within the biennium. Average stumpage value will be $240 per thousand board feet (mbf), which will be paid at the time of harvest. It is anticipated that DNRC would

receive the higher stumpage rate of $240 per mbf due to the flexibility this bill provides the timber purchaser.
4. An annual lease or license payment of $40,000 would be made at the beginning of each contract year. The first lease or license payment would be the only revenue earned in this contract in FY 2007.
5. It is assumed that approximately 6 months would be needed to develop any necessary rules and another 12 months to develop the first timber license or lease.
6. A forest management licensee or lessee would be required to follow all applicable laws and rules established by the Board of Land Commissioners for state trust lands.
7. Annual timber harvested during the term of a license or lease will be included as part of the DNRC annual sustained yield requirement in 77-5-223, MCA.
8. The Resource Development Account is allocated 3% of lease revenues from land management activities on school trust land. The resource development account will receive $1,200 (3% x $40,000) and the remaining $38,800 would be paid to the trust beneficiary.
9. It is not known which land trust will own the land covered by the single lease signed in FY 2007. For the purposes of this fiscal note, it is assumed that the land is common school land, in which case, 95% of the net revenue will be deposited in the guarantee account and 5% will be deposited in the school trust fund. If it belonged to the capital building trust, all of the net revenue will be deposited in the capitol building capital projects fund. If it belonged to one of the other trusts, all of the net revenue will be deposited in the corresponding state special revenue account.
10. Approximately two-thirds of state forests are on school trust land. The first revenue under this program is likely to be on school land. In which case, revenue to the guarantee account would be increased by $36,860 (95% x $38,800) and an additional $1,940 (5% x $38,800) would be deposited in the school trust fund.
11. The increase to the guarantee account will be shared proportionally between state Base aid to schools (below 18 million board feet) and the Technology Acquisition Fund based (above 18 million board feet). According to this calculation, Base aid would receive 53% and Technology Acquisition Fund would receive 47% of the additional revenue.
12. The guarantee fund is the first funding for school Base aid. Increases in revenue for Base aid do not increase the state obligation for school district Base aid and result in reductions in the amount of general fund required to fund school districts.

FISCAL IMPACT:

	FY 2006 Difference	FY 2007 Difference
Funding of Expenditures:		
General Fund (01)	$0	($19,536)
State Special Guarantee Account (02)	0	19,536
TOTAL	$0	$0
Revenues:		
State Special Revenue (02)		
Guarantee Account - Base aid	$0	$19,536
Guarantee Account – Technology Fund	0	17,324
Resource Development Account	0	1,200
Trust Funds (09)	0	1,940
TOTAL	$0	$40,000

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	$0	$19,536
State Special Revenue (02)		
Guarantee Account - Base aid	$0	$0
Guarantee Account – Technology Fund	$0	$17,324
Resource Development Account	$0	$1,200
Trust Funds (09)	$0	$1,940

LONG-RANGE IMPACTS:

1. The net increase in revenue over current practices from the single license or lease sale anticipated in FY 2007 would be an extra $480,000 to the trust over the 8-year term of the lease ($60,000 per year).
2. The bill would allow up to 30,000 acres of state lands to be leased. Assuming the same terms for all leases, this would produce additional revenue of $900,000 per year. Assuming leases occur on land belonging to all of the land trusts in proportion to each trust's share of state forests, this additional revenue would be allocated as follows:

Resource Development Account	$27,000

Beneficiaries	**Distributable Revenue**	**Non-Distributable Revenue**
Common School	$549,829	$28,938
Univ. of Montana	$990	$0
MSU-Morrill	$11,160	$0
MSU-Second	$41,715	$0
MT Tech	$27,765	$0
Normal School	$27,585	$0
Deaf & Blind	$18,945	$0
Reform School	$27,585	$0
Veterans Home	$0	$0
Public Buildings	$138,488	$0
Total	$844,062	$28,938

3. Non-distributable revenue deposited in the school trust would increase the balance in the trust resulting in higher interest earnings deposited in the guarantee account.
4. The carbon sequestration program would increase revenues by reducing tree-planting costs.
5. The potential for the transfer of several of the DNRC responsibilities under the Montana Environmental Policy Act (MEPA) may allow for a reduction in the number of FTEs needed to administer state trust lands. This would result in a cost reduction as well as an increase in revenue, both of which will increase the monies going to the trust beneficiaries.